



EQUITABLE

# Long-term care

## Case study

The Society of Actuaries projects that 1 of 3 males and 1 of 2 females in their mid-50s today will live to 90.<sup>1</sup> For Don and Shelly, a married couple in their mid-50s, this seems like great news. Both try to take good care of themselves and are optimistic that they will live up to — or hopefully even beyond — these projections.

But is this a potentially double-edged sword? Many of today's workers have based their retirement planning on (what are now) outdated mortality projections. Those who have failed to plan beyond a certain age may be faced with the harsh reality of outliving their savings.

Life expectancy is a variable that many people feel uncomfortable discussing, but it may be the single most important piece of information Don and Shelly can consider when planning for retirement.

## Don and Shelly

- Don is 55
- Shelly is 53
- Happily married
- Living in Chicago
- 1 son (college graduate)

Logically speaking, Don and Shelly should have a far different approach to retirement than those who might have a major health condition, such as type 2 diabetes or cardiovascular disease. This approach not only relates to retirement planning as a whole, but specifically long-term care, which may be the most expensive service retirees have to pay for.



<sup>1</sup> Society of Actuaries, "Age Wise Infographic Series."

<sup>2</sup> soa.org, 2019.

## Case and projections

Don and Shelly always prided themselves on being financially prepared to meet all of life's challenges — marriage, a mortgage, parenting, college — but they realize that these years of saving, sacrificing and thinking ahead will only take them so far. The couple came to this understanding after a slow, upsetting experience: Shelly's father had type 2 diabetes and needed 3 years of long-term care, which flushed her parents' savings. They, too, were always fiscally conservative and planned well for their golden years, but when the unexpected happened, they nearly ran out of money. The consequences of this expense had severe ramifications on the entire family. The cost of Shelly's father's care left her mother with almost no income, aside from her Social Security checks. Additionally, the legacy they hoped to leave to Shelly and her siblings was wiped out to pay for these costs. Shelly is fearful that if Don suffers a similar fate, she, as his survivor (projected to live around 4 years after he passes), will be left with virtually no income and may be unable to leave a bequest to their son.

This concerns Shelly, so when she and Don finish paying for their son's college expenses, they agree to start looking into their future long-term care needs. Fearful that they may follow the path of Shelly's parents, she and Don decide to ensure enough funds will be available for a reasonable stay for Don in a quality long-term care facility.

**Their financial plan (up to this point) covered basic retirement expenses — housing, transportation, Medicare and even discretionary spending — but long-term care was never addressed.** While it's true that not everyone will require some form of long-term care, ignoring what could be a colossal end-of-life expense is a risk that neither Don nor Shelly are willing to take.

They broach the topic of Don's potential long-term care needs with their financial planner, who suggests starting to save now for this expense, but they must first estimate the cost. A little bit of rudimentary online research reveals that a year of assisted living care in Illinois will cost approximately \$50,000. This amount seems high, but they actually have a number of years to plan. If Don doesn't need care until his mid-80s, they have around 30 years to let an investment of a little over \$8,000 (growing at a 6% rate of return) generate the \$50,000 necessary for 1 year of care. Peace of mind for \$8,000 and change? Don and Shelly couldn't sign up any faster.

Client	Current age	Type of care	Age at time of care	Years of care	Total cost	Initial investment
Don	55	Assisted living	86	1	\$50,000	\$7,748

If they choose, Don and Shelly may also be able to cover \$50,000 of long-term care through a health savings account (HSA), a long-term care rider on a life insurance policy or any investment that will earn them this much income later in life.

This isn't the whole story. Don and Shelly are leaving out a few significant variables. What type of care will they need? What if they need more than 1 year of care? And what about inflation? They'll need long-term care in 30 years, not today.

### **\$50,000 may not be enough**

After reviewing more of their financial plan, Don and Shelly are confident that they have positioned themselves for peace of mind in retirement, even if Don does need long-term care. They've sacrificed enough to be sure that Shelly — if she does, in fact, survive Don — will be able to live comfortably.

Unfortunately, a few months after finalizing this plan, the couple's financial professional informs them that he has new software that projects future long-term care costs. By entering some information about Don, the couple can now obtain accurate personalized projections based on his individual inputs. This approach is much more reliable than simply researching generic survey data, which is how they came up with the \$50,000 savings goal. Because he is healthy, they now decide to plan to age 86.

It turns out, after inputting a number of variables, \$50,000 falls well short of Don's actual projected long-term care funding needs.



### Inflation

Assisted living may cost around \$50,000 in Illinois today, but healthcare (and in particular, long-term healthcare) typically inflates at least twice as fast as regular inflation. Those 30 years until care is needed, growing at a 6%-7% healthcare inflation rate, will pose a significant dilemma for Don and Shelly if one or both eventually need services.



### Type of care

Planning for assisted living may be optimistic, as this form of long-term care is actually less expensive than services offered through a skilled nursing facility. It is, of course, entirely possible that Don may eventually need skilled nursing care, which is almost always more expensive.



### Metro region

Don, Shelly and their planner thought they were smart when they looked up the cost of long-term care in a facility in Illinois. They knew that some medical services — including long-term care — can vary by state, but the couple can actually can take it one step further and focus on the metro region, as costs may even vary within the same state. Unfortunately, long-term care costs in Chicago will be higher than the state average.

## After running these projections

Don and Shelly are surprised — and a bit upset — about what they have uncovered. When factoring inflation, the potential need for skilled nursing, an extra 6 months of care and the added cost of care in Chicago, Don is projected to need about \$330,207 to cover long-term care costs at end of his life.

Initially taken aback, Don and Shelly are nonetheless appreciative that their planner has taken the time to provide these projections. While there’s certainly more saving to do, the couple would rather be informed and proactive than underprepared — as Shelly’s parents were.

Unfortunately, a number of long-term care variables simply cannot be predicted. No one has a crystal ball. Some of us may need 5 years of long-term care; others may never step foot in a facility. The best strategy available is to utilize individualized healthcare cost projections, adhere to a long-term investment strategy and become educated about the many components of retirement healthcare.

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This information is derived from sources believed to be accurate, however, its completeness and accuracy is not assured. This information is subject to regulatory and/or legislative changes, and therefore should not be relied upon alone when making any elder care decision.

Long-term care insurance policies are subject to underwriting wherein individual health, business/personal activities and other factors are considered prior to policy issue.

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